

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
DF-46 (REV 03/13)

Fiscal Year 2014-15	BCP No.	Org. Code 0860	Department State Board of Equalization	Priority No.
Program Sales and Use Tax			Element	Component N/A

Proposal Title
LUMBER PRODUCTS ASSESSMENT

Proposal Summary

The Board of Equalization (BOE) requests \$684,000 (Special Funds) to convert 4.0 expiring limited-term positions to permanent and add 2.0 new permanent positions in FY 2014-15 and \$575,000 (Special Funds) in FY 2015-16 and ongoing and for the BOE to administer the Lumber Products Assessment.

Approval of these positions will ensure the continued revenue stream of approximately \$30 million annually.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed		
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign</i>	Department CIO	Date	
For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the California Technology Agency, or previously by the Department of Finance. <input type="checkbox"/> FSR <input type="checkbox"/> SPR Project No. Date:			

If proposal affects another department, does other department concur with proposal? ☐ Yes ☐ No
Attach comments of affected department, signed and dated by the department director or designee.

Budget Officer	Date	Chief, Financial Management Division	Date
Deputy Director, Administration	Date	Executive Director	Date

Department of Finance Use Only

Additional Review: ☐ Capital Outlay ☐ ITCU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐ Technology Agency

BCP Type: ☐ Policy ☐ Workload Budget per Government Code 13308.05

PPBA Date submitted to the Legislature

STATE BOARD OF EQUALIZATION
Sales and Use Tax Program
Lumber Products Assessment
Fiscal Year 2014-15

A. Proposal Summary

The Board of Equalization (BOE) requests \$684,000 (Special Funds) to convert 4.0 expiring limited-term positions to permanent and add 2.0 new permanent positions in FY 2014-15 and \$575,000 (Special Funds) in FY 2015-16 and ongoing for the BOE to administer the Lumber Products Assessment.

Approval of these positions will ensure the continued revenue stream of approximately \$30 million annually.

B. Background/History

Originally, the fee was considered a tax imposed upon the retailer pursuant to the draft language in AB 1492. On August 7, 2012 the language of AB 1492 was amended, whereby a Public Resource Code provision was added to impose a one percent assessment. Rather than imposing the tax on the retailer (similar to the existing sales and use tax program), this assessment is imposed on the purchaser for the storage, use or other consumption of lumber products in California. Retailers are required to collect this assessment from the purchaser and remit directly to the BOE. Additional language was added to the final draft of the bill that allows a retailer to retain an amount determined by the BOE associated with one-time startup costs to collect and remit the assessment. This resulted in additional workload not addressed in the BOE's original request for funding. AB 1492 was Chaptered September 11, 2012.

The BOE is statutorily mandated to administer the Sales and Use Tax Program. Implementation of the new Lumber Products Assessment imposed upon the consumer of lumber products and collected by the retailer required the BOE to program the Integrated Revenue Information System (IRIS) mid-tier and web applications to accommodate changes to the various returns, revenue, audit, and accounting subsystems. Additional programming was also necessary to allow retailers to retain an amount for reimbursement of their start-up costs. The Lumber Products Assessment is filed electronically with the retailer's sales and use tax return and as such, requires an increase in costs due to additional Information Technology (IT) programming. The BOE received \$1.92 million for FY 2012-13; \$2.31 million for FY 2013-14, \$1.81 million for FY 2014-15 and \$1.69 million ongoing to fund this implementation in the FY 2012-13 Budget Act based on original draft language. AB 1492 was later amended and has created additional workload not addressed in the original proposal. The BOE requested 4.0 positions for the technology workload that was associated with the legislation. This proposal was submitted to the Department of Finance (DOF), but was not approved. The DOF instructed the BOE to redirect positions to address the IT workload associated with this project.

The BOE requests to convert 4.0 limited-term positions set to expire June 2014 to permanent and to add 2.0 new permanent positions to provide high quality services to the fee payers that are required to register, collect, report, pay the additional fee, as well as to assist with the increase in communications between the fee payers and the BOE.

C. State Level Considerations

The BOE collects taxes and fees that provide approximately 34 percent of the annual revenue for state government and essential funding for counties, cities, and special taxing districts. In FY 2010-11, the BOE administered taxes and fees produced \$53.7 billion for education, public safety, transportation, housing, health services, social services, and natural resource management. The BOE administers the state's sales and use, fuel, alcohol, tobacco, and other taxes and collects fees that fund the specific programs. More than one million businesses are registered with the agency.

This proposal is consistent with the BOE's mission to serve the public through fair, effective and efficient tax administration. Specifically, this proposal allows the BOE to maintain and administer the Lumber Fee Assessment program. This proposal is consistent with, and supports, the BOE's strategic plan by maximizing voluntary compliance, investing in a skilled, motivated and diverse workforce, and enhancing the BOE's operational effectiveness.

D. Justification

Pursuant to the amendments to AB 1492, the Public Resources Code provisions impose a one percent Lumber Products Assessment upon the purchaser of lumber products, and requires the assessment due to be collected by the retailer upon the sale of the lumber product to the purchaser. The retailer is permitted to be reimbursed for the one-time startup costs that the retailer incurs to collect this Lumber Products Assessment.

The draft bill language the BOE utilized for identifying program costs would have imposed an additional sales tax upon retailers of lumber products, which would have been administered under the existing administrative provisions of the Sales and Use Tax Law. The chaptered bill language instead imposed an assessment on the purchaser which is administered pursuant to the Fee Collection Procedures Law. Due to the administration under a different law, the new assessment creates a new liability for the retailer that must be legally differentiated from the sales tax. Although both the sales tax and the new assessment are reported on the same return in an attempt to minimize costs and simplify reporting for retailers, the BOE is encountering complications in separating two distinct liabilities that are reported together. These complications occur when the taxpayer does not pay the liability in full, files a delinquent return, or amounts are assessed in an audit.

The BOE is requesting permanent establishment of 4.0 positions expiring June 2014 to continue workload that was expected to be one-time. The workload has proven to be an ongoing workload that includes maintaining and updating webpages and publications, maintaining and corresponding with the Board of Forestry, ongoing responses to taxpayers and tax professional's telephone and written questions and inquiries, and generating lumber fee reports and analyses (i.e. revenue, registration, audits, collections, refunds, etc.) It is likely that these taxpayers will not fully understand the complexity of identifying specifically what lumber products are included and which are excluded from the definition of lumber products.

Due to technology limitations and the complexity of administering the Lumber Products Assessment Program coupled with the existing Sales and Use Tax Program, the positions in the Return Analysis Unit and Local Revenue Allocation Unit are necessary to ensure accurate and timely allocation of lumber and sales and use tax revenues. The workload associated with these positions consists of taxpayer education, revenue allocation, and payment maintenance and billing. As a result, the 4.0 positions are requested to be established on a permanent basis. In addition, the 1.0 Office Technician is required for the Computer Audit Specialist Section (CASS), to accomplish clerical duties so that CASS audit staff can focus on evaluating and examining the taxpayer's digital records for its audit sampling.

In order to handle the increase in call volumes the Customer Service Center (CSC) originally requested 2.0 Tax Technician II limited-term positions. However, due the complexity of the new assessment, during the first two filing periods the staff answering these calls required more assistance due to the difficulty of the calls. This increase in assistance impacted our internal Customer Service Center Hotline, where staff needing assistance increase by over 100 percent. In order to handle the increase in calls CSC is requesting 1.0 Tax Technician II and 1.0 Business Taxes Representative on a permanent basis.

Due to the unknown number of retailers that may be impacted by this bill, the BOE originally anticipated approximately 60,000 feepayers may be required to register, collect, and remit this new Lumber Products Assessment imposed upon purchasers of lumber products. Many of these retailers were automatically registered as sellers of lumber products as their type of business indicated the strong likelihood that they sell lumber products subject to the assessment. This allowed for these retailers to properly report the

assessment. Others retailers were identified as possible sellers of lumber products and were asked to notify the BOE if they sell lumber products subject to the assessment. Due to this unknown nature of certain retailers, the BOE has experienced significant workload associated with registering taxpayers that were not previously registered and unregistering retailers that were automatically registered as a retailer of lumber products. Currently, there are approximately 30,000 fee payers that are registered to report the lumber products assessment that have not reported any amounts collected from consumers.

Determination of which products are subject to the assessment and which products are not subject to the assessment is the responsibility of the Board of Forestry and Fire Protection. Therefore, the BOE lacks any control over the changing nature of the products subject to the assessment. The changing classification of products subject to the assessment was anticipated to occur only once per year. However, the Board of Forestry and Fire Protection has already made two separate changes to classification of specific products in the first six months of the program. The frequency of changes to the classification of products is expected to continue at a rate more frequently than initially anticipated, especially when the BOE begins conducting audits of fee payers and more questions come up regarding the classification of specific products. Each time the Board of Forestry and Fire Protection changes the classification of products subject to the assessment, the BOE must prepare materials for retailers of lumber products to notify them of the change. The changing classification of products subject to the assessment will also have a significant impact on staff time needed to address questions from retailers and consumers in addition to processing of returns and claims for refunds associated with the assessment on items that have changed classification.

E. Outcomes and Accountability

Projected Outcomes			
Workload Measure	2013-14	2014-15	2015-16
Estimated Revenue	\$ 30 million	\$ 30 million	\$ 30 million

Utilizing California's 12 percent share of the U.S. population and applying a typical retail margin, it is estimated California's lumber sales were likely \$7.0 billion in 2007. With the economic downturn from 2007 through 2012, housing permits in California declined by approximately 50 percent. Assuming that lumber sales declined parallel to the decline in housing permits, it is estimated that lumber sales in California for 2012 were approximately \$3.5 billion. Applying the one percent lumber fee assessment to the \$3.5 billion, it is estimated the revenues would be approximately \$35 million. Therefore, after the estimated cost reimbursements of \$5 million are applied, which also take into account for a possible increase in the amount of reimbursement, the net estimated revenues are \$30 million.

F. Analysis of All Feasible Alternatives

Alternative 1 - The Board of Equalization (BOE) requests \$684,000 to convert 4.0 limited-term positions, set to expire June 30, 2014 to permanent status and to add 2.0 new permanent positions in FY 2014-15 and \$575,000 in FY 2015-16 and ongoing for the BOE to administer the Lumber Products Assessment.

Pros:

- Provides the resources needed to timely and efficiently administer the statutorily mandated Lumber Products Assessment.
- Provides the highest level of service to the fee payers.
- Provides the necessary resources to properly remit the correct amount of the Lumber Products Assessment.
- Provides funding to adequately protect the Timber Regulation and Forest Restoration Fund.

- Provides the ability for the BOE to update the list of products that are subject to the Lumber Assessment as determined by the Board of Forestry, as well as notifying fee payers timely of the changes.

Cons:

- Requires a budget augmentation.

Alternative 2 – Provide funding to extend the existing 4.0 limited-term positions for an additional three years and to add a new 2.0 3-year limited-term positions for three years. Funding will be \$684,000 in FY 2014-15, and \$575,000 in FY 2015-16 and FY 2016-17.

Pros:

- Addresses the immediate need for additional resources required to handle workload associated with the Lumber Products Assessment.
- Temporarily provides the highest level of services to fee payers.
- Temporarily provides funding to protect the Timber Regulation and Forest Restoration Fund.

Cons:

- The Lumber Products Assessment is permanent, but under this alternative some of the resources to administer the program are limited-term.
- Provides temporary funding for the protection of the Timber Regulation and Forest Restoration Fund by ensuring compliance with the law.
- Increases expenditures from the Timber Regulation and Forest Restoration Fund.
- Does not provide the necessary resources to properly remit the correct amount of the Lumber Products Assessment.

Alternative 3 - Do not approve this request.

Pros:

- Does not require a budget augmentation.

Cons:

- Does not provide retailers and purchasers of lumber products the necessary resources to properly remit the correct amount of Lumber Products Assessment.
- Does not guarantee that the Timber Regulation and Forest Restoration fund will be adequately protected.
- Expected revenues will be delayed and force redirection of other resources for which will result in lost revenue for an extended period if adequate resources are not provided.

G. Implementation Plan

July 2014 through June 30, 2015 and on-going

- Hire and train new staff.
- Maintain and update web pages and publications.
- Continue to identify and notify affected taxpayers.
- Answer taxpayer inquiries.
- Process incoming tax returns.
- Issue determinations for delinquent returns.
- Process claims for refunds.
- Follow up on leads and perform routine audits.
- Audit selected taxpayers and issue deficiency and refund determinations related to the lumber fee assessment.

H. Supplemental Information *(Check box(es) below and provide additional descriptions.)*

☒ None ☐ Facility/Capital Costs ☐ Equipment ☐ Contracts ☐ Other

I. Recommendation

Alternative 1 is recommended.

This alternative allows the BOE to meet its statutory obligation to efficiently administer the Lumber Products Assessment.

DRAFT

Workload Detail for Lumber Products Assessment

EXTERNAL AFFAIRS DEPARTMENT

Customer Service Center Section

As a result of this legislation the CSC estimates an additional 24,000 calls from both the tax/fee payers and consumers annually and 20,000 ongoing calls for each year thereafter. In order to handle the increase in call volumes the CSC originally requested 2.0 Tax Technician II limited-term positions. However, due to the complexity of the new assessment, during the first two filing periods the staff answering these calls required more assistance due to the difficulty of the calls. This increase in assistance impacted our internal Customer Service Center Hotline, where staff needing assistance increased by over 100 percent. In order to handle the increase in calls CSC is requesting 1.0 Tax Technician II and 1.0 Business Taxes Representative on a permanent basis.

1.0 Tax Technician II - Conversion of Limited-Term to Permanent

This position will be utilized to answer approximately 10,000 calls a year from tax/fee payers needing assistance with filing and paying their lumber tax assessment returns. In addition they will provide account maintenance and answer general questions concerning the tax/fee.

Workload Detail				
		Time Measure		Ongoing Activities
Classification	Activity	M = Minutes H = Hours	Occurrences Per Year	Total Hours
Tax Technician II	Answer taxpayer and public inquiries received on the BOE toll free 800 phone number concerning the new program and the application of tax.	4.5 M	12,000	1,780
	Process account maintenance requests.	6 M	150	30
	Total Tax Technician II Hours			1,810
	Total Tax Technician II Positions Needed (1,800 Hours/Position)			1.01

1.0 Business Taxes Representative – New Permanent Position

This position will provide tax technician and remote agent training to call center staff answering calls from tax and fee payers needing assistance with filing/paying their lumber tax assessment returns. In addition they will respond to approximately 3,000 of the more complex calls/report of referrals and 7,000 tax and fee payer calls received on the main toll free BOE 800 line.

Workload Detail				
		Time Measure		Ongoing Activities
Classification	Activity	M = Minutes H = Hours	Occurrences Per Year	Total Hours
Business Tax Representative	Provide staff with answers to the more complex questions and issues from tax/fee payer concerning the new program and the application of tax.	12 M	3,000	600
	Answer taxpayer and public inquiries received on the BOE toll free 800 phone number concerning the new program and the application of tax.	9.6 M	7,000	1,120
	Process difficult account maintenance requests.	12 M	150	30
	Training to Tax Technicians	20 H	4	80
	Total Business Taxes Representative Hours			1830
	Total Business Taxes Representative Positions Needed (1,800 Hours/Position)			1.0

SALES AND USE TAX DEPARTMENT (SUTD)

Headquarters Operations Division (HOD)

HOD in the SUTD is responsible for the Return Analysis Unit and Computer Audit Specialist Section.

Computer Audit Specialist Section

The CASS is a revenue producing section. CASS consists of 20 computer audit specialists, which are comprised of 16 Business Taxes Specialist II positions and four Business Taxes Specialist I positions. The CASS provides technical support to the field audit staff by evaluating the taxpayer's operations, determining the availability and complexity of the taxpayer's records, CASS examine, verify and extract accounting detail from the taxpayer's digital records so that a representative sample of the taxpayer's records can be extracted and then examined by a BOE auditor. The auditor reviews the records to determine whether the correct amount of the Lumber Fee Assessment was correctly and accurately reported by the taxpayer.

1.0 Office Technician – New Permanent Position

An Office Technician (OT) performs typical clerical revenue supporting functions related to the audit and compliance programs including the Lumber Fee Assessment. These clerical functions include filing, copying answering phones, attendance coordination, maintaining personnel files, preparing miscellaneous recurring reports, and receiving and distributing mail. This position is requested to assist the CASS staff in completing the necessary clerical duties, so that CASS staff can concentrate on verification of the Lumber Fee Assessments reported and credits claimed by taxpayers. Without the OT available to perform the clerical duties created by the administration of the Lumber Fee Assessment (i.e. verification of time reports from staff, copying, answering phones, etc.), the time will be expended completing those duties and not utilized towards electronically gathering and verifying electronic records of those taxpayers collecting and reporting the Lumber Fee Assessment. Thus the proper verification of reported and claimed amounts will be forfeited because the time expended to perform the evaluation functions will be utilized doing clerical functions.

Workload Detail					
		Time Measure		On-going Activities	
Classification	Activity	M=Minutes H=Hours	Time Per Occurrence	Occurrences Per Year	Total Hours
Office Technician	Provide administrative support for CASS employees.	H			1,800
	Total Office Technician Hours				1,800
	Total Office Technician Positions Requested (1,800Hours/Position)				1.0

Return Analysis Unit (RAU)

2.0 Business Taxes Representative (BTR) – Conversion of Limited-Term to Permanent

The BTRs perform desk reviews of returns with errors or questionable returns with amounts or missing amounts with respect to the new tax/fee. BTRs make contact directly with the taxpayers to resolve the issue, and issue Notices of Determinations to assess additional tax due. It was originally anticipated that after the two-year limited term period had passed since the inception of the new tax/fee that the work required of these BTRs would no longer be necessary. However, due to the frequently changing of products subject to the assessment, taxpayers will continue to make errors on returns or file claims for refunds. Therefore, the workload associated with this new assessment will require permanent staff to administer.

Workload Detail					
		Time Measure		On-going Activities	
Classification	Activity	M=Minutes H = Hours	Time Per Occurrence	Occurrences Per Year	Total Hours
Business Taxes Representative	Analyze returns and make necessary taxpayer contact.	H	0.25	7,500	1,875
	Replies and follow up actions	H	0.25	7,500	1,875
	Total Business Taxes Representative hours				3,750
	Total Business Taxes Representative Positions Requested (1,800 Hours/Position)				2.08

1.0 Tax Auditor (TA) – Conversion of Limited-Term to Permanent

Although the new tax/fee is not a local tax per se, the tax is enigmatic because it only applies to some taxpayers registered with the BOE for sales and use tax purposes. As such, there are likely to be issues with those taxpayers' returns, which could impede upon the accurate and timely distribution of local and district taxes. The TA analyzes and bills accounts for district taxes and amended returns, reviews allocation assignments of subordinate staff, analyzes and processes complex district tax and local tax questionable reallocations on accounts. It was originally anticipated that after two years of inception of the new tax/fee most of the issues that require the additional examination of returns would diminish and this position would no longer be necessary. However, due to the frequently changing of products subject to the assessment, taxpayers will continue to make errors on returns or file claims for refunds. Therefore, the workload associated with this new assessment will require one permanent staff to administer.

Workload Detail					
		Time Measure		On-going Activities	
Classification	Activity	M=Minutes H = Hours	Time Per Occurrence	Occurrences Per Year	Total Hours
Tax Auditor	Analyze and bill accounts for district taxes and amended returns. Review the allocation of assignments distributed to subordinate staff. Analyze and process district tax and local tax questionable reallocations on accounts.	H	2.75	655	1801.25
	Total Tax Auditor hours				1800
	Total Tax Auditor Positions Requested (1,800 Hours/Position)				1.0

Fiscal Summary

(Dollars in thousands)

BCP No.	Proposal Title				Program		
	Lumber Products Assessment				Sales and Use Tax		
Personal Services	Positions			Dollars			
	CY	BY	BY + 1	CY	BY	BY + 1	
Total Salaries and Wages ¹	0.0	6.0	6.0		\$263	\$263	
Total Staff Benefits ²					\$119	\$119	
Distributed Administration					\$50	\$42	
Total Personal Services	0.0	6.0	6.0		\$432	\$424	
Operating Expenses and Equipment							
General Expense					\$91	\$16	
Distributed Administration					\$12	\$10	
Printing							
Communications					\$8	\$5	
Postage							
Travel-In State							
Travel-Out of State							
Training					\$5	\$5	
Facilities Operations					\$68	\$68	
Utilities					\$1	\$1	
Consulting & Professional Services: Interdepartmental ³							
Consulting & Professional Services: External ³							
Data Center Services					\$15	\$15	
Information Technology					\$52	\$31	
Equipment ³							
Other/Special Items of Expense: ⁴							
Total Operating Expenses and Equipment					\$252	\$151	
Total State Operations Expenditures					\$684	\$575	
Fund Source	Item Number						
	Org	Ref	Fund				
General Fund	0860	001	0001				
Special Funds ⁵	0860	001	3212		\$684	\$575	
Federal Funds							
Other Funds (Specify)							
Reimbursements	0860	001	0995				
Total Local Assistance Expenditures							
Fund Source	Item Number						
	Org	Ref	Fund				
General Fund							
Special Funds ⁵							
Federal Funds							
Other Funds (Specify)							
Reimbursements							
Grand Total, State Operations and Local Assistance					\$684	\$575	

¹ Itemize positions by classification on the Personal Services Detail worksheet.² Provide benefit detail on the Personal Services Detail worksheet.³ Provide list on the Supplemental Information worksheet.⁴ Other/Special Items of Expense must be listed individually. Refer to the Uniform Codes Manual for a list of standard titles.⁵ Attach a Fund Condition Statement that reflects special fund or bond fund expenditures (or revenue) as proposed.

(Whole dollars)

¹ Use standard abbreviations per the Salaries and Wages Supplement. Show any effective date or limited-term expiration date in parentheses if the position is not proposed for a full year or is not permanent, e.g. (exp 6-30-13) or (eff 1-1-13)
Note: Information provided should appear in the same format as it would on the Changes in Authorized
² If multiple programs require positions, please include a subheading under the classification section to identify positions
³ Totals must be rounded to the nearest thousand dollars before posting to the Fiscal Summary.

(Dollars in thousands)

² Total must tie to "various" funds identified for Local Assistance, Special Funds in the Fiscal Summary.